A STUDY OF FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN POST DEMONETIZATION PERIOD (A COMPARATIVE STUDY OF PUBLIC AND PRIVATE SECTOR BANKS)

SYNOPSIS SUBMITTED

by

JYOTI DOBHAL

For Ph.D. Degree in Faculty of Management

Swami Rama Himalayan University
Swami Ram Nagar, Jolly Grant, Dehradun

DECLARATION

I hereby declare that the synopsis entitled **"A Study of Financial Performance of Commercial banks in Post Demonetization Period(A Comparative Study of Public and Private Sector Banks)"** is my own original work and it has not formed the basis for the award of any degree, diploma, associate ship or fellowship of similar other titles.

Signature of Supervisor:

Research Scholar:
Jyoti Dobhal

Details of Supervisor:
Dr Saurabh Joshi
Assistant Professor
Swami Ram Himalayan University
Dehradun, Uttarakhand

INTRODUCTION

Banking System of India

RBI **(**Reserve Bank of India) plays the central role in the banking system of India. This is the highest authority monitoring and controlling the entire banking system of India.RBI came into existence on April1, 1935 with the Reserve Bank of India Act 1934. Its primary function is to create and execute the monitory policies.

Banking sector of India has been divided into Scheduled and Nonscheduled banks. Banks that come under second schedule of RBI Act1934 are Scheduled Banks. Such banks have their paid up capital more than Rs. 5 Lakh. Further it can be classified into Nationalized Banks, SBI and its Associates, Regional Rural Banks, Foreign Banks, Private Sector Banks, Scheduled Cooperative Banks, Urban Cooperative Banks and State Cooperative Banks.

Banks fail to fulfill the prerequisites of 2nd schedule of RBI Act are kept under the category of Non-Scheduled Banks. Commercial Banks may be categorized either as Scheduled or Nonscheduled Banks. There are 21 Public sector banks overall with a large network of small and big branches with a nationwide coverage. SBI (State Bank of India) has the privilege of carrying the legacy of largest and oldest public sector bank of the nation.

Among the another 22 private sector banks of the country, Axis Bank, HDFC Bank, ICICI Bank hold the major share of retail banking sector.

Thus banks play pivotal role in any economic system and RBI is the main Regulatory Body of Indian Banking System.

Demonetization

Demonetization is an act of withdrawing a specific form of currency from its circulation as a legal tender. This has been a standard practice being followed by most of the world economies citing the numerous causes from time to time. Demonetization happened three times in India. First time it happened on 12th January 1946 when the RBI demonetized Rs, 1,000 and Rs, 10,000 currency notes, Second time it happened on 16th January 1978. In 1978, the government demonetized banknotes of ₹1,000, ₹5,000 and ₹10,000. Now it happened on 8th November 2016.

On November 8, 2016 Government announced that Rs 500 and Rs1000 banknotes would no longer be useful for public. Total value of demonetized currency amounted to 15.4 trillion and that was around 86.9% of total currency in circulation.

Government also declared the issuance of new ₹500 and ₹2,000 banknotes in exchange for the old demonetized currency notes. It gave people a period of around two months to deposit all these demonetized currency with the banks. The government said that this currency restriction was necessary for the three main objectives, to discourage black money, to get counterfeit currency exit from the economic system and to minimize cash transactions in order to promote cashless economy. Government found it a fruitful action and described that new notes have some special security features.

Demonetization Effect over Economy

Demonetization had immediate effect on liquidity. Some firms found difficulty in running their operation because of inadequacy of cash. Daily wage workers, poor people suffered more. There was the limitation on the withdrawal of money from the banks that also affected the payment of daily wage labors. Other sectors like Agriculture, Tourism Industry, and Real estate business also affected as these sectors have dependency on cash only.

Positive impact of Demonetization over Banks

Liquidity: Demonetization increased cash deposits in the banks. There was an excessive cash inflow of Rs.500 and Rs.1000 in the banks due to which size of deposits significantly increased and this liquidity enhancement remained with the banking sector even next year after the above mentioned step. It also helped banks to reduce their high cost deposits and increased their current account and savings account (CASA) ratio.

Profitability: After demonetization as public sector banks deposits increased, they invested their excess funds in government bonds. It was assumed that return on bond investment would increase 15 to 20 percent to banks earnings. Banks received around Rs 2 lakh crore in the span of 42 days only after the currency ban and thus the cost of new borrowings were reduced for the government. Besides this, people started operating their dormant accounts which would give profits to Banks. New bank accounts were increased in rural and urban area.

E banking: After the problem of cash shortage people moved to e- banking. Young generation, educated people started paying online for goods and services after demonetization. Some feedbacks from Payments companies were that online transactions in urban area were double in the two years since demonetization. Public came into the habit of using cards, e-banking and phone wallet. E-banking saved banks and customers time.

Negative impact of demonetization over banks

Services: Banks could not execute other functions as banks were engaged in exchanging banned currency notes. They were unable to provide other banking services properly.

Work Life balance of bank employees: The work life balance of bank employees got affected due to this over loaded operational activity.

100% CRR: After demonetization banks experienced surplus deposits,RBI announced 100% CRR on new deposition in banks. Hundred per cent CRR on incremental deposits means that banks were unable to get any profit on Rs 3 lakh crore deposits for fifteen days.

Lending Services: As primary work of banks was to exchange notes, so that time they were unable to provide lending service.

ATM Transaction charges: It was decided that banks would not take ATM charges for transactions. A customer was permitted at least five free transactions per month from ATM. Banks would charge Rs 20 beyond the permitted transactions. The waiver of ATM charges means bank had to bear loss of Rs 20 in every transaction.

Statement of the Problem

Demonetization affected many sectors of the nation but banking sector was the most affected one as it was the main channel through which whole economic process had moved on. It was assumed that banking sector had an edge over the rest during the entire exercise of demonetization. It becomes necessary to understand Demonetization effect on banks financial performance as banks financial performance directly related to a country's economic growth.

Literature Review

Bansal (2019) analyzed the demonetization effect on Indian banking sector. This study was based on secondary data which was taken from journals websites etc. Researcher analyzed balance sheet of scheduled commercial banks and revealed that it improved the liquidity position of banks. It helped banks to invest the surplus fund in various opportunities for obtaining profits.

Rastogi (2018) tried to find the demonetization impact on Indian economy. Researcher studied about the decision of demonetization and its outcomes in many different countries from 1982 to 2016 by using secondary data and found that it was not successful in every country but in India people accepted government decision. It was revealed by researcher that the main objectives of demonetization in India were to curb illegal money, fake currency and to encourage people for cashless transactions.

Srivastava (2018) analyzed the effect of demonetization on banking sector. For the study, researcher did comparative analysis of one public sector bank (SBI) and one private sector bank (AXIS) from year 2016 to 2017 on the basis of some parameters. For the study, data have taken from bank official websites. The findings were that it has affected both the banks financial performance as there was surge in deposits which resulted fall in cost of fund but for the short period, it put excessive burden on bank employees.

Sarkodie (2018) analyzed the demonetization effect on low earning people. This study was based on secondary data as well as primary data. Secondary data was taken through online articles and primary data was from one to one interaction, informal interview with the poor income group class in Lovely Professional University. On the basis of the study, researcher found that although it was a good move, but it could not fulfill its objective of removing black money from economy and it badly affected to poor people.

Nazhat & Saleem (2018) examined impact of demonetization over banking sector. Researchers have taken primary data by structured questionnaire method. Total twelve banks were selected for the purpose of research and sample of 50 bank employees was taken to get the feedback. On the basis of the analysis of the data, it was concluded that online banking significantly increased after demonetization and it helped to remove black money from system but bank employees faced inconvenience in performing their duty as because of long working hours.

Singh (2017) researched on demonetization and its effect on banking sector. Researcher studied the demonetization effect on balance sheet, profitability of bank and change in GDP. He concluded that banks were the major institutions which were affected in this process. There was significantly increase in deposits without incurring any cost, although it disturbed banking operations for short term, but it will be helpful for country to grow.

Antony et al (2017) studied the impact of demonetization on Banks .For this, comparative analysis of some public sector banks (SBI,Allahabad, Canara,UCO,PNB etc.) has been done. Researcher studied the data which was provided in bank official websites. Some factors like reduction in demand for credit, enhanced deposits, diminish asset quality were examined and found that demonetization will bring ample fund for banks but still it has to deal with stressed asset problem to grow.

Singhal (2017) did case study on the use of e banking in rural and urban area. For the study researcher has taken primary data by the questionnaire method, face to face interview from 50 people of urban and rural area of Bangalore.

Also, four public and four private sector banks were taken. Researcher examined the data from Sep 2016 to Nov 2016 and revealed that urban population is more aware and is using e banking frequently and rural population needs more awareness as they afraid of doing any mistake.

Prabhu & Mamatha (2017) studied demonetization and its effect on banking sector. For their study, researchers have taken secondary data like published literature, newspaper. Their objective was to find the impact of demonetization on normal banking operation. As per the study it was found that there was increase in deposits and falls in cost of fund and as well as the demand of government security has increased. It temporarily disturbed banking operation, but it pushed up the economy and help country to grow through banking institutions

Dhar k (2017) on the study examined the impact of demonetization over the banking sector. This study was based on primary data and considered 13 banks of Verval city and questionnaire was filled by 100 respondents who were the employees of selected banks. Researcher revealed that latest demonetization was more successful than the previous ones thus the significance of online banking has been increased. Although one of the objectives of demonetization was to grab black money, but it could not grab full black money but still it created fear for black money holder.

UKE (2017) researched on effect of demonetization in India. The study was based on theoretical frame work of studying experts and economist view over demonetization. It was revealed that demonetization had both positive and negative impact. Government action was successful to some extent, but its real impact will be clear in future.

Gajjar (2016) studied about different aspects of black money in India .Researcher gave some suggestions to deal with it and as per the study demonetization is also an effective method to deal with corruption and also e governance, cashless economy will also be helpful to control the black money problem.

Chatterji & Banerji (2016) in the article in Square Patron Boggs, revealed that demonetization had immediate and long-term effect in Indian economy also it will improve the liquidity status of banks, and banks can get profit by lending its surplus fund. Researchers also discussed about short term liquidity problem in economy and noticed that people moved to e-wallets, online transactions like e-banking and used debits and credit cards more.

Mali (2016) studied the effect of demonetization on economy. Researcher used secondary data sources like newspapers, online articles etc. and explained about the reason of demonetization in India, effect of demonetization on some sectors like retail stores, microfinance institute

and concluded that it has some positive and some negative effect on economy. He suggested that though for the short run it does not show any big advantage but in the long run it will be beneficial for the country.

Literature Review Table

S.No	Study	Variables	Sample Characteristics	Result	Authors
1	Impact of Demonetization over Banking sector	Demonetization being independent variable, where as banks deposits, liquidity and banking operation are dependent variables	Data was secondary by nature and obtained from website of RBI	Demonetization will Fetch results over economy in a long run.	Bansal,(2019) Pacific Business Review International,
2	Demonetization and its impact on Indian economy.	Demonetization being independent variable whereas economic growth, performance of stock market are dependent variables	Most of the data was secondary by nature and was obtained from the website of RBI and various government websites.	Demonetization affected to Indian economy favorably, cashless transactions have been increased.	Rastogi,(2018) International Journal of Academic Research and Development,
3	The effect of Demonetization on banking sector: A comparative study of Public and Private sector Banks	Demonetization being independent factor whereas bank deposits, liquidity, banking operation are independent variables.	Data was secondary by nature and was obtained from the website of SBI and AXIS Bank	Demonetization positively affected the financial performance of banks and deposits of banks increased.	Srivastava, (2018) Research Review Journal
4	Demonetization and the poor strata of society	Demonetization being independent variable whereas effect on poor people is dependent	Most of the data was secondary but primary data also taken.	Demonetization negatively affected to lower class of people	Sarkodie, (2018)International Journal of Advanced Research and

		variable.			Development
5	A study on impact of demonetization over banking sector with reference to banks in Raipur city.	Demonetization being Independent variable, whereas banking performance, use of e banking are dependent variables.	Data was primary by nature and questionnaire method was used with respondents.	Demonetization will bring positive results in future as it increased the use of e-banking	Nazhat & Saleem (2018) International journal for research in engineering application and management
6	Demonetization and its effect on Banking Sector	Demonetization being independent variable whereas Profitability of banks, affect on economy and GDP are dependent variables.	Data was secondary by nature and was obtained from different banks websites.	Demonetization affected banking system favorably. There was increase in deposits of banks.	Singh, (2017) IJRCT
7	Impact of Demonetization on Banks	Demonetization being dependent variable whereas demands for credit, NPA are dependent variables.	Data was secondary by nature and it has obtained from many public sector banks websites.	Demonetization has positively affected banks financial performance, but it could not improve NPA problem.	Antony et al., (2017) International Education and Research Journal
8	Demonetization and its effect on banking sector	Demonetizations being independent variable, whereas banking operations, effect on economy are dependent variables.	Data was secondary by nature and obtained from banks websites	Demonetization affected the banking system favorably.	Prabhu et al.(2017) IOSR Journal of Business and Management
9	Study on impact of Demonetization over the banking sector with reference to Veraval City	Demonetization being Independent variable and increase in online banking, black money are dependent variables.	Data was primary by nature and questionnaire method has been used.	Demonetization affected the banking system favorably. Digital transactions also increased.	Dhara, (2017) International Journal of Marketing and Financial Management
10	Demonetization and its effects in India	Demonetization being independent variable, and impact on economy, financial	Data was secondary by nature and on the basis of Study of	Demonetization will fetch positive results over economy	UKE,(2017) SSRG International Journal of

		year, real estate are dependent factors.	Experts and economist view	in long run.	Economics and Management Studies

Discussion over the view of authors

A group of researchers found demonetization was the right decision as it was considered as a tool to fight with the black money and corruption. It was found that it affected all the sectors of Indian economy but primarily to banking sector. There was some positive effect of demonetization on the performance of banks. It increased CASA ratio of banks and it stayed with banks even after one year of the event. It also helped banks to reduce their cost. Government banks invested the surplus fund in government bonds from where they would get the profit from 15 to 20 percent. It pushed people towards the use of electronic modes of payment. Although, for the short term it increased the burden on bank employees due to extended working hours but to some extent it also helped to remove black money from the system. In contrast, some researchers found that it could not achieve its objectives but damaged to economy for short term. As there was short term liquidity problem, it affected mainly poor class of people like daily wage workers. It also affected employment generation, though it was for short time period only. Some of researchers view on NPA problem is that, although banks deposits have increased but it could not change the NPA problem. RBI applied 100%CRR means banks could not get any profit for three months. Banks were fully engaged in exchanging notes so in that time period they could not operate other activities like selling its loan and other banking products. It is still a challenge for rural population to be part of digitalization due to the poor connectivity, lack of knowledge and fear of Internet banking fraud.

Conclusion

This is the third time when demonetization has happened in India. Three key objectives of this event were to control the problem of black money, counterfeit currency and corruption which were achieved to some extent but it could not achieve its full objectives. This could not be implemented in the proper way and it looks like it was a hasty decision of government of India. At that time, there was the liquidity problem in the market; people had to wait in the queue for deposit and withdrawal of money from the banks. Tourism industry, Real estate sectors were badly affected as they need more cash for running their business but in spite of this, general public welcomed this decision. Banks were the main channels that were operating this process. It has also positively affected the banks financial performance as deposits of the banks significantly increased.

It also increased the profitability of banks because of investing the surplus fund in government bonds and from there they were likely to get profits. Besides this, people started operating their dormant accounts which would give profits to Banks. New accounts in banks increased in rural and urban areas. For the short term, liquidity problem arose there in the market as a result of which people moved to digital banking services. It saved time and money of both banks and customers. It was observed that demonetization could not make affect on NPA problem but in reverse it increased the burden on bank employees due to long working hours. Perhaps banks were not ready to handle this sudden change. Although for the short term period it showed its positive and negative impact on banks operative and financial performance but the long-term impact is yet to be come out. It is also necessary to analyze the NPA problem of banks after this event. As now people are moving to e-banking therefore banks should make a robust security system so that cybercrime and frauds can be controlled.

Research gaps

- Effect over Public sector as well as Private sector banks financial performance has not been studied yet.
- The effect over NPA position of banks needs to be determined.
- Demonetization effect over the liquidity position of banks is yet to be analysed.
- The changes in the balance sheet of the public and private sector banks need more critical analysis.
- The short term effect of demonetization revealed immediately but long term effect over the financial and operative performance of banks is yet to be determined.
- Study also required to analyse which bank was more affected by this event and why.

Objectives

Researcher would strive to achieve objectives given below.

1. To evaluate financial performance of public and private sector banks during demonetization period, this will be year from 1 April 2013 to 31March2020.
2. To compare financial performance of public and private sector banks before and after demonetization period, this will be year from 1 April 2013 to 31 March2020.
3. To evaluate the factors that directly affects profitability of banks during the above mentioned period.

Hypothesis

During the course of research, scholar would test the validity of the following hypothesis.

H#1: There is a significant effect over the liquidity position of banks after demonetization period.

H#2: Liquidity and Profitability of banks are significantly correlated.

H#3: Entire demonetization has significantly improved the banking operations.

METHODOLOGY

Research Design

Research is mainly based on secondary data collected from the quarterly and annual reports of the organizations. However, researcher would strive to obtain the primary data based on questionnaire method from the officials and customers as well. Both qualitative and quantitative method of research shall be applied in the study. Researcher will consider some financial parameter which will be helpful for the study and some statistical tool for data analysis. Since scope of the study covers the comparative performance of the banks around demonetization period therefore annual/quarterly reports of banks from 01st April 2013 to 31stMarch 2020. Questionnaire for the customers/officials shall be designed after incorporating the details pertaining to the above-mentioned period.

Sampling Techniques

In research, a sample is a selected data representing large population. Researcher shall use convenient sampling method. Three banks from each (public and private) sector shall be selected on the basis of market share during the above-mentioned period.

Data collection and Parameter

This Research is mainly based on secondary data collected from the quarterly and annual reports of the organizations. However, researcher would strive to obtain the primary data based on questionnaire method from the officials and customers as well. Researcher shall consider some parameters like profitability, liquidity, operation efficiency etc. to analyze the financial performance of banks.

Data Analysis

For Data analysis researcher shall use various types of financial tools and techniques like ratio analysis, trend analysis, cash flow analysis etc. also, some statistics tools like correlation and regression analysis etc. Besides this aid of tables, charts and figures shall also be taken for the arrangement, representation, and synthesis of data.

Further the above-mentioned techniques are subject to change/expansion/ extension depending upon the direction of work.

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